

Message Text

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61

ACTION ARA-10

INFO OCT-01 ISO-00 EB-07 XMB-04 /022 W

----- 013750

R 162030Z AUG 76

FM AMEMBASSY BUENOS AIRES

TO USDOC WASHDC

INFO SECSTATE WASHDC 6747

UNCLAS BUENOS AIRES 5366

PASS EXIMBANK

E.O. 11652: N/A

TAGS: ECRP, AR

SUBJECT: CERP-0006; TRADE OUTLOOK REPORT

1. SUMMARY: THE CHANGE IN GOVERNMENT WHICH TOOK PLACE IN ARGENTINA ON MARCH 24, 1976, HAS RADICALLY ALTERED THE OUTLOOK FOR TRADE BETWEEN THE U.S. AND ARGENTINA. THE ECONOMIC REFORMS ALREADY INSTITUTED BY THE GOA, AND THOSE THEY ARE COMMITTED TO IN THE NEAR FUTURE HAVE REVERSED THE RAPIDLY DECLINING TRENDS IN THE BALANCE OF PAYMENTS AND IN BUSINESS CONFIDENCE, AND GIVEN PROMISE OF A RECOVERY FROM ARGENTINA'S RECESSION AS EARLY AS THE FIRST HALFOF 1977. THIS, COMBINED WITH PROSPECTS FOR BETTER THAN AVERAGE 1976 WHEAT HARVEST AND ANTICIPATION OF GENERALLY GOOD AGRICULTURAL EXPORT EARNINGS IN 1977 SHOULD RESULT IN AN EXPANDED IMPORT MARKET IN 1977.

2. GOVERNMENT INVESTMENT PRIORITIES REMAIN ESSENTIALLY UNCHANGED OVER PAST FEW YEARS. GOA WILL PLACE EMPHASIS ON ENERGY SECTOR, PETROCHEMICALS, STEEL, AND PORTS. WHEN THE RECOVERY COMES, STRONG DEMAND FOR MACHINE TOOLS, TEXTILE EQUIPMENT, PULP AND PAPER EQUIPMENT AND MINING EQUIPMENT CAN BE EXPECTED FROM THE PRIVATE SECTOR. BECAUSE ARGENTINE BALANCE OF PAYMENTS SITUATION WILL REMAIN DIFFICULT IN 1977, SUPPLIER FINANCING WILL BE ESSENTIAL TO

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COMPETITIVE POSITION OF U.S. FIRMS EXPORTING TO

ARGENTINA. END SUMMARY.

3. ANY ANALYSIS OF THE OUTLOOK FOR TRADE WITH ARGENTINA HAS TO BEGIN WITH THE CHANGES IN ECONOMIC POLICY WHICH HAVE TAKEN PLACE SINCE MARCH 24TH, AND THE RESULTS OF THESE CHANGES, PARTICULARLY WITH REFERENCE TO BALANCE OF PAYMENTS. THE ECONOMIC POLICY OF THE JUNTA GOVERNMENT IS DRAMATICALLY DIFFERENT FROM THAT OF ITS PREDECESSORS. IT HAS DECONTROLLED PRICES, RENEWING OPPORTUNITIES FOR PROFITABILITY AND RESTORING BUSINESS CONFIDENCE TO INDUSTRY; IT IS MOVING TOWARDS A FREE EXCHANGE RATE, HAVING ESTABLISHED REALISTIC RATES OF EXCHANGE AND ENDED THE COSTLY PRACTICE OF MAINTAINING AN OVER VALUED PESO; IT HAS DRASTICALLY REDUCED THE RATE OF INFLATION, FROM 38 PERCENT PER MONTH IN MARCH TO 4.2 IN JULY ; IT HAS ADOPTED AGRICULTURAL POLICIES WHICH ARE BROADLY STIMULATIVE AND SHOULD RESULT IN CONSIDERABLE SURPLUSES IN THE NEAR FUTURE; AND IT HAS AGREED TO THE TERMS OF AN IMF STAND-BY, THEREBY MEETING THE CONDITIONS OF ITS PRIVATE CREDITORS IN THE U.S. AND EUROPE FOR SOME \$800 MILLION DOLLARS IN NEW LOANS DESIGNED TO ENABLE THE GOA TO RESCHEDULE ITS HEAVY EXTERNAL DEBT BURDEN. THE POLICY OF STIMULATING AGRICULTURAL EXPORTS AND THE DEBT RESCHEDULING EXERCISE WILL NO DOUBT SIGNIFICANTLY IMPROVE THE BALANCE OF PAYMENTS OUTLOOK FOR 1976 AND 1977. LATEST ESTIMATES FOR 1976 INDICATE A TRADE SURPLUS OF SOME \$900 MILLION: EXPORTS \$4 BILLION AND IMPORTS \$3.1 BILLION COMPARED TO 1975 FIGURES, WHICH ARE RESPECTIVELY \$3.0 BILLION AND \$3.9 BILLION. WITH GOOD WEATHER THIS PERFORMANCE CAN BE REPEATED OR EVEN IMPROVED ON IN 1977.

4. IN 1977, THE ANTICIPATED REVIVAL OF THE ECONOMY, LED BY THE EXPORT SECTOR, CAN BE EXPECTED TO RESULT IN INCREASED INVESTMENT AND IMPORT DEMAND. ARGENTINA OVER THE PAST FEW YEARS HAS ACTUALLY BEEN DIS-INVESTING, AND HAS A VAST BACKLOG OF NEEDED PLANT AND EQUIPMENT IN MANY SECTORS WHERE THERE IS NOT SUFFICIENT LOCAL MANUFACTURING CAPABILITY. THESE UNCLASSIFIED

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SECTORS, RANKED IN ROUGH ORDER OF IMPORTANCE RELATIVE TO THEIR IMPORT POTENTIAL BY VALUE, ARE POWER GENERATION, PETROCHEMICAL PLANT EQUIPMENT, PETROLEUM AND NATURAL GAS EXPLORATION EQUIPMENT, STEELMAKING EQUIPMENT, HEAVY CONSTRUCTION AND MINING EQUIPMENT, PULP AND PAPER EQUIPMENT, MACHINE TOOLS, TEXTILE EQUIPMENT, PORT HANDLING EQUIPMENT, COMMUNICATIONS EQUIPMENT AND RAILROAD

EQUIPMENT.

5. OVER THE PAST SEVERAL YEARS THE PUBLIC SECTOR INVESTMENT PROGRAM BECAME GREATLY OVEREXTENDED RELATIVE TO THE RESOURCES AVAILABLE TO CARRY IT OUT. WE CAN EXPECT AN ATTEMPT BY THE NEW GOA AUTHORTIES OVER THE NEXT FEW MONTHS TO RATIONALIZE THEIR INVESTMENT PROGRAM AND SET NEW PROJECT PRIORITIES.

6. PRIORITY WILL NO DOUBT CONTINUE TO BE GIVEN TO THE ENERGY (PETROLEUM, NATURAL GAS AND COAL) SECTOR AS WELL AS TO THE POWER SECTOR. IN THE LATTER SECTOR THE INVESTMENT PLAN HAD BEEN PARTICULARLY AMBITIOUS AND IT IS LIKELY THT THE NUMBER OF PROJECTS WILL BE SCALED DOWN FAIRLY DRASTICALLY AND PRIORITIES RE-ORDERED.

7. OF THE MAJOR HYDROELECTRIC WORKS, IT NOW APPEARS THAT THE ALICURA PROJECT ON THE LIMAY RIVER WILL BECOME THE PRIORITY POWER PROJECT. EMPHASIS WILL CONTINUE TO BE GIVEN TO THE JOINT VENTURE WITH PARAGUAY AT YACIRETA-APIPE ON THE UPPER PARANA. THE DIFFICULT PARANA MEDIO PROJECT, HOWEVER, IS LIKELY TO BEPUT OFF FOR QUITE A NUMBER OF YEARS. FINANCING FOR BOTH ALICURA AND YACIRETA-APIPE IS BEING SOUGHT FROM THE WORKD BANK AND THE IDB. ASIDE FROM THE SPECIFIC PROJECTS WHICH WILL RE-CEIVE PRIORITY FUNDING FROM THE GOA'S CURRENTLY LIMITED RESOURCES FOR INVESTMENT, THERE ARE PRO-JECTS IN OTHER SECTORS WHICH ALREADY HAVE FINANCING OR ARE EXPECTED SOON TO OBTAIN FINANCING FROM THE WORLD BANK AND THE INTER AMERICAN DEVELOPMENT BANK.
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IN THIS CATEGORY ARE PROJECTS IN THE PETROCHEMICAL FIELD AND IN ROAD CONSTRUCTION, NATURAL GAS, AND THE PULP AND PAPER SECTORS.

8. IN THE CATEGORY OF PROJECTS LACKING IFI COMMITMENTS, SUPPLIER, FINANCING WILL BE REQUIRED TO COMPLEMENT THE GOA'S PORTION. BECAUSE THE ARGENTINE GOVERNMENT HAS VERY LITTLE MARGIN BOTH IN ITS INTERNAL AND EXTERNAL ACCOUNTS, SUPPLIER FINANCING WILL UNDOUBTEDLY BE THE MOST IMPORTANT ELEMENT OF A SUPPLIER'S COMPETITIVE POSITION.

9. IN THIS REGARD, A RECENT CENTRAL BANK DECREE HAS RETURNED TO NORMAL STANDARDS OF INTERNATIONAL COMMERCIAL PRACTICE THE FINANCING TERMS THE GOA

REQUIRES THAT THEIR IMPORTERS OBTAIN FOR CAPITAL
GOODS, REMOVING ONE OF THE OBSTACLES TO A RENEWAL
OF EXPORT FINANCING OPERATIONS BY FOREIGN BANKS.
THE APPROVAL BY THE IMF OF THE STAND BY AGREEMENT WITH
THE GOA IS EXPECTED TO TRIGGER REOPENING OF CREDIT
WINDOWS TO ARGENTINA AROUND THE WORLD.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CERP 0006, TRADE DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 16 AUG 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976BUENOS05366
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760314-0880
From: BUENOS AIRES
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760851/aaaabsdp.tel
Line Count: 176
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 17 MAR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <17 MAR 2004 by ReddocGW>; APPROVED <24 JAN 2005 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CERP-0006; TRADE OUTLOOK REPORT
TAGS: ECRP, AR
To: COM
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006